San Luis Obispo County Treasury

Investment Policy

2009

Frank L. Freitas, CPA
San Luis Obispo County Treasurer

1055 Monterey Street
Room D-290, County Government Center
San Luis Obispo, CA 93408
Telephone Number: (805) 781-5842
Fax Number: (805) 781-1079
Email: ttc@co.slo.ca.us
Website: www.slocounty.ca.gov/tax

Approval Schedule

- County Treasury Oversight Committee (CTOC)
  December 15, 2008, Meeting
- County Board of Supervisors
  January 13, 2009, Meeting

Approved policy will remain in effect until succeeding policy is adopted.

INVESTMENT POLICY

- Established: May 1983
- Current Revision: January 2009

Cover Photos by: Barbara Bowden - San Luis Obispo Sunset
Brett Law - View from Perfumo Canyon

TABLE OF CONTENTS

I. POLICY STATEMENT

The San Luis Obispo County Treasurer shall prudently manage County funds and funds of local agencies in the combined pool pursuant to the defined objectives which, in the order of priority, are safety, liquidity, and yield, while in compliance with laws and policies.

The purpose of this written Investment Policy (IP) is to clearly state the guidelines and standards established by the San Luis Obispo County Treasurer for the prudent investment of the combined pool, define the objectives of managing the combined pool, and maintain internal controls and reporting requirements.

The funds are managed with a high degree of care and prudence. All investments contain a degree of "risk." However, the proper exercise of prudence, the adherence to a high level of ethical standards, and the proper delegation of authority reduces the potential for any realized loss.

This IP establishes the standards under which the County Treasurer shall conduct business with regard to the investment process. These standards provide the basis for the investment program.

II. SCOPE

This policy is intended to cover all investment activities under the direct authority of the County Treasurer. The County maintains a combined pool with cash and investments which provide cash flow for the funding needs of the participants. Participants include County departments, agencies, schools, and special districts. A list of all participants is maintained by fund in the County Auditor-Controller's enterprise financial system. Normal banking processes, standards, and relationships are defined by the California Government Code (GC) and are not a part of the IP.

III. OBJECTIVES

The primary objectives **in order of priority** are safety, liquidity, and yield, while maintaining compliance with federal, state, and local laws and regulations.

A. SAFETY

The combined pool shall be managed in a manner that ensures the preservation of capital. The objective is to minimize credit risk and interest rate risk.

1. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

a. Custodial Credit Risk

The custodial credit risk for investments is the risk that a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails.

(III. OBJECTIVES – Continued)

This type of credit risk can be minimized by:
(1) Pre-qualifying custody financial institutions.
(2) Requiring custodian to hold securities in the County Treasurer's name.
(3) Holding applicable securities in the County Treasurer's vault.

b. Concentration of Credit Risk
Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.
This type of credit risk can be minimized by:
(1) Limiting investments to the safest types of securities.
(2) Diversifying the portfolio.
(3) Setting limits per issuer.

2. Interest Rate Risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk may be minimized by structuring the portfolio so that securities mature to meet cash flow requirements for ongoing operations, and thereby avoiding the need to sell securities on the open market prior to maturity.

B. LIQUIDITY
The combined pool shall remain sufficiently liquid to meet all operating requirements. This will be accomplished by structuring the portfolio so that maturities meet cash flow requirements. The combined pool shall include marketable securities to assist in meeting unanticipated cash requirements.

C. YIELD
Each purchase made shall be subject to meeting the requirements of safety, liquidity, and competitive pricing.

D. COMPLIANCE
This IP is written to be in compliance with federal, state, and local laws and regulations. The combined pool is managed in compliance with this policy and applicable laws. Whenever laws change, any affected section in this policy shall automatically change in application to conform to law.

IV. STANDARDS OF CARE

A. PRUDENCE
The County Treasury shall manage the combined pool pursuant to the "Prudent Investor Standard" (GC §27000.3(c)):

> When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the county treasurer or the board of supervisors, as applicable, shall act with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including,

(IV. STANDARDS OF CARE – Continued)

but not limited to, the general economic conditions and the anticipated needs of the county and other depositors, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the county and the other depositors. Within the limitations of this section and considering individual investments as part of an overall investment strategy, investments may be acquired as authorized by law.

Investment personnel, while exercising due diligence and acting in compliance with federal, state, and local laws and regulations in accordance with the County Treasurer's written policies and procedures, and this IP, shall be relieved of personal responsibility for credit risks provided that deviations from expectations are reported in a timely manner. This could involve reporting a credit rating downgrade on an investment held by the Treasury. Often such credit downgrades foreshadow looming credit risks. Such information should be reported immediately to the County Treasurer and/or Assistant Treasurer.

B. DELEGATION OF AUTHORITY

California GC authorizes the County Treasurer to deposit, invest, and provide safekeeping for funds held in the County Treasury. The County Treasurer may delegate this authority to one or more deputy Treasurers, including the Assistant Treasurer, or other qualified management level employee; or to a qualified investment service organization.

No person may engage in an investment transaction except when delegated to do so by the County Treasurer and only as provided under the terms of this policy and the procedures established and approved by the County Treasurer. A list of authorized County investment personnel is maintained with authorized financial dealers and institutions. The County Treasurer shall maintain a system of internal controls to regulate the activities of investment personnel.

C. ETHICS AND CONFLICTS OF INTEREST

Individuals performing the investment function and members (including their designated alternates) of the County Treasury Oversight Committee (CTOC) shall maintain the highest standards of conduct. Each person performing the investment function and members of the CTOC must maintain their independence and not have actual conflicts of interest. In addition, they shall avoid the appearance of having conflicts of interest or having lack of independence. Therefore, County Treasury investment personnel and members of the CTOC are subject to the following prohibitions and disclosures:

(IV. STANDARDS OF CARE – Continued)

1. Prohibitions
   a. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could affect their ability to make impartial decisions.
   b. Officers and employees shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the County.
   c. Investment personnel shall not accept gifts or gratuities from any bank, broker, dealer, or any other person, firm, or organization with which the County conducts business. Exceptions may be made for minor items of advertising and other items of minimal value with the approval of the County Treasurer.
2. Disclosures

   Investment personnel shall disclose any material interest in financial institutions with which they conduct County business. They shall further disclose any personal financial/investment positions that could create the appearance of lack of independence.

   Nothing in this IP supersedes any County ordinance or State law which regulates conduct. This policy may set standards higher than those established by ordinances or other laws.

V. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

A. SELECTION STANDARDS

The County Treasurer, in selecting financial institutions for the deposit and investment of funds, shall consider and monitor the credit worthiness of each institution. The County Treasurer shall approve each institution maintained on the authorized list which he determines is in the best interest of the County. In addition, organizations selected for the list must meet the following criteria for each applicable category:

1. Deposits (Interest Bearing):
   a. A nationally or state chartered bank, savings bank, savings association, federal association, and credit union which meets the following requirements:
      - assets of at least $500 million
      - considered well-capitalized
        i. total risk-based capital ratio of at least 10%
        ii. tier 1 risk-based capital ratio of at least 6%
        iii. tier 1 leverage ratio of at least 5%
        iv. financial institution is not subject to directive, order, or written agreement to meet and maintain specific capital levels

(V. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS – Continued)

- consistently profitable in the last five years with a Return on Average Asset of at least 1%
- Total Asset Classification Ratio is below 40%

b. The financial institution has received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities, including low and moderate income neighborhoods, pursuant to governmental regulations.

2. Investments:
   a. Listed as a "Primary Dealer" by the Federal Reserve Bank of New York, or
   b. A Nationally or State Chartered Bank with assets over five billion dollars ($5,000,000,000), and has received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities, including low and moderate income neighborhoods, pursuant to governmental regulations, or
   c. Direct issuers of securities authorized per California GC.

B. CRITERIA FOR SELECTING SECURITY BROKERS AND DEALERS
1. The criteria shall prohibit the selection of any broker, brokerage, dealer, or securities firm that has, within any consecutive 48-month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to the County Treasurer, any member of the governing board of the County or depositing local agency, or any candidate for those offices.
2. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must meet the following conditions as appropriate:
   a. Complete all investment transactions in a timely manner.
   b. Maintain the normal and accepted industry standards for doing business.
   c. Meet or exceed the minimum SELECTION STANDARDS identified under this policy.
   d. Agree not to provide any honoraria, gift, or gratuity to any San Luis Obispo County investment personnel or to any member of the CTOC. Exceptions may be made for minor items of advertising and other items of minimal value with the approval of the County Treasurer.
   e. Agree to comply with this IP (requirements related to average maturities, category limits, or issuer limits are managed by authorized Treasury investment personnel).

(V. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS – Continued)

C. AUTHORIZED BROKER/DEALER CONTACT LIST REVIEW
The County Treasurer, or the designee, shall periodically review the authorized list. The County Treasurer maintains the financial institutions on the authorized broker/dealer contact list which he determines is in the best interest of the County.

VI. CUSTODIAL SERVICES

Custodial services shall be maintained at the following standards:

A. THIRD PARTY
Securities purchased from any bank or dealer, including appropriate collateral (as defined by State law) shall be placed with an independent third party for custodial safekeeping, and held in the County Treasurer's name. The third party custodian is selected based on rating, experience, and service.

B. ACCOUNTING
Monthly safekeeping statements are received from banks where securities are held. Authorized staff, not directly supervised by investment personnel, shall compare the safekeeping statements with the statements generated by the investment tracking system utilized by the County Treasurer.

C. VAULT SAFEKEEPING
Collateralized certificates of deposits shall be safe kept in the County Treasurer's vault.

D. TRANSACTIONS FOR INVESTMENTS
1. A list of individuals and their signatures, who are authorized to handle investment transactions and wire transfers, shall be provided to the safekeeping institutions and the depository banks.
2. Trade instructions to the safekeeping institutions shall be made for all investment purchases or sale transactions, either by electronic transmission or facsimile.

E. DELIVERY VS. PAYMENT
All trades, where applicable, shall be executed by delivery vs. payment (DVP). This ensures that securities are deposited in the eligible financial institution prior to the release of funds.

VII. INTERNAL CONTROLS

A. INTERNAL CONTROL STRUCTURE
An internal control structure shall be established and maintained that is appropriate for the circumstances. The internal controls shall be designed to provide reasonable assurances that the combined pool assets are protected.

(VII. INTERNAL CONTROLS – Continued)

B. INTERNAL CONTROL COST/BENEFIT
The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived.

C. INTERNAL CONTROL REVIEW
Reviews of the internal controls shall be made to ensure:

1. Separation of transaction authority from accounting and record keeping.
2. Daily investment activity and preparation of investment tickets and trade instructions to custody shall be handled by designated investment personnel.
3. Broker investment confirmations shall be reviewed and compared to the investment tracking system by designated staff not directly supervised by investment personnel. This applies to investment transactions by staff with investment authority and does not apply to staff with limited funding authority for overnight funding accounts. Discrepancies shall be referred immediately to the Assistant Treasurer (provided that the Assistant Treasurer did not execute the transaction) or the County Treasurer.

VIII. EXTERNAL REVIEW

A. QUARTERLY REVIEW

1. The CTOC members are provided with the County Treasurer's Quarterly Report.
2. The County Auditor-Controller performs a quarterly cash audit of the County Treasury. This audit verifies the financial status and confirms compliance with federal, state, local laws and regulations, and the IP.

B. ANNUAL REVIEW

1. The CTOC is required to review and monitor the IP. To ensure compliance, the CTOC shall cause an annual IP compliance audit by contracting the services of the County Auditor-Controller, the County's contracted auditors, an independent certified public accountant separately contracted by the CTOC, or any combination thereof. Results of this audit shall be presented to the County Board of Supervisors.
2. To ensure compliance with the law and County policies and procedures, the County Auditor-Controller annually audits the County, including the office of County Treasurer.
3. Independent certified public accountants selected by the Board of Supervisors and the Grand Jury perform an annual audit of the books of accounts, financial records, and transactions of all offices of the County.
4. The IP is presented annually to the County Board of Supervisors for their review and approval at a public meeting.

IX. RESTRICTIONS APPLICABLE TO ALL INVESTMENTS

The following restrictions apply to all investments purchased on behalf of the County Treasurer:

A. INVESTMENT ORIGINATION

Investment transactions shall originate at the office of the County Treasurer. Investment transactions originating at a location other than the office of County Treasurer must have the specific written approval of the County Treasurer.

B. AUTHORIZED PERSONNEL

All investment transactions shall only be made by personnel authorized by the County Treasurer.

C. COMPETITIVE PROCESS

All investment transactions shall be made on an informal competitive bid basis, unless impractical. The County Treasurer shall be notified when noncompetitive purchases are necessary.

D. HOLDING TO MATURITY

Investments are to be purchased with the intent of holding the security to maturity. Trading of any security before maturity requires written authorization by the County Treasurer.

E. AUTHORIZATION

All investments purchased must be authorized by and are subject to the limitations of this IP and the County Treasurer's written policies and procedures. All purchases must be completed through financial institutions authorized by the County Treasurer.

F. MAXIMUM MATURITY

All investments, unless otherwise restricted, shall not exceed a maturity of five years without written approval of the County Treasurer, and only when in compliance with California law.

G. APPROVED SECURITIES

The County Treasurer shall maintain a method of internal control to ensure that appropriate investments are purchased.

H. PERCENTAGE LIMITATIONS

Where a percentage limitation is specified for a particular category of investment, that percentage is applicable only at the date of purchase.

I. HOLIDAYS AND OTHER NON-WORK DAYS

When any maturity has a maximum time limit and that date falls on a week-end or bank holiday, the number of days calculated shall be based on counting all the days to the first working day past the maturity date.

J. COLLATERALIZATION
Collateral taken on investments shall be priced at market value and must equal or exceed the amount required by law.

K. DERIVATIVES
Derivatives which include inverse floaters, range notes, or mortgage-derived, interest-only strips and any security that could result in zero interest accrual if held to maturity are **prohibited**.

L. FORM OF CURRENCY
All investments will be U.S. dollar denominated.

M. CALLABLE SECURITIES
Callable securities (securities redeemable by the issuer before the scheduled maturity) are only allowed with the specific written approval of the County Treasurer for each investment.

X. GENERAL INVESTMENT PARAMETERS

A. DIVERSIFICATION
Investments shall be diversified by security type and institution to avoid losses that may be associated with either.

B. MATURITIES
After determination that anticipated cash flow requirements are funded, maturities will be scheduled in line with the current investment strategy.

C. REPORTING
1. A summary of all new investment transactions shall be recorded on the Treasurer's Daily Report (TDR), a copy of which is filed daily with the County Auditor-Controller.
2. Quarterly reports shall be produced and distributed in accordance with California GC and by resolutions of the County Board of Supervisors. The report shall be distributed as follows:
   a. The County Treasurer shall render a Quarterly Report to the County Administrative Officer, County Auditor-Controller, and the County Board of Supervisors within 30 days following the end of the quarter covered by the report.
   b. The County Treasurer shall provide the CTOC with Quarterly Reports.
   c. The County Treasurer may include the Quarterly Report on the Board of Supervisors agenda within 60 days following the end of the quarter covered by the report.
   d. The County Treasurer shall provide pool participants the Quarterly Report that report to a separate board, i.e., school districts and special districts, a Quarterly Report of Pool

Investments within 20 days following the end of the quarter covered by the report.

3. An annual report of Cash and Investments with deposit and investment credit ratings is prepared for the County Auditor-Controller's Comprehensive Annual Financial Report which is audited by independent certified public accountants.
4. Market value reporting shall be provided in accordance with California law. When reports issued include market values of securities held, the source of those values shall be from the custodian bank; or estimates of values received from broker/dealers; or listings in the Wall Street Journal; or internal calculations based on the current market rate for a specific treasury instrument as identified in the County Treasurer's written policies and procedures, and adjusted for estimated spreads to that instrument; or any combination of the above.

D. PERFORMANCE STANDARDS
The combined pool shall be managed in accordance with all applicable laws and with the standards established under this IP and the County Treasurer's written policies and procedures. The County Treasurer shall take appropriate steps to monitor the investment program.

E. PROCEEDS FROM THE ISSUANCE OF DEBT
Proceeds shall be invested according to the limitations of California law and appropriate issuing documents.

F. SPECIFIC INVESTMENTS
Specific investments requested by participant depositors may be made on behalf of the participant depositor, subject to the terms and conditions agreed upon by the County Treasurer and the participant depositor.

XI. AUTHORIZED INVESTMENTS – RESTRICTIONS AND/OR CONDITIONS

All investments must be made subject to California and Federal law. It is the intent of this IP to further restrict allowable investments for the combined pool to reduce exposure to investment risks. The following investments are authorized by California GC and may be permitted by this IP, subject to the listed restrictions:

A. BONDS ISSUED BY THE LOCAL AGENCY, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.

OFFICE RESTRICTIONS: Must have specific written approval of the County Treasurer for each investment. The following office restrictions can be exceeded only with the specific written approval of the County Treasurer:

(XI. AUTHORIZED INVESTMENTS – Continued)

1. Maximum term of one year to maturity.
2. Maximum of 5 percent of the combined pool may be invested in this category.

B. UNITED STATES TREASURY notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest. The following instruments are permitted with the indicated restrictions:

1. TREASURY NOTES

   OFFICE RESTRICTIONS: No percentage limitation on Treasury Notes.

2. TREASURY BONDS

   OFFICE RESTRICTIONS: No percentage limitation on Treasury Bonds.

3. TREASURY BILLS

   OFFICE RESTRICTIONS: No percentage limitation on Treasury Bills.

C. REGISTERED STATE WARRANTS, or treasury notes, or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

OFFICE RESTRICTIONS: Must have specific written approval of the County Treasurer for each investment. The following office restrictions can be exceeded only with the specific written approval of the County Treasurer:

1. Maximum term of one year to maturity.
2. Maximum of 10 percent of the combined pool may be invested in this category.

D. REGISTERED TREASURY NOTES OR BONDS OF ANY OF THE OTHER 49 UNITED STATES in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 United States, in addition to California.

OFFICE RESTRICTIONS: Must have specific written approval of the County Treasurer for each investment. The following office restrictions can be exceeded only with the specific written approval of the County Treasurer:

1. Maximum term of one year to maturity.
2. Maximum of 5 percent of the combined pool may be invested in this category.

(XI. AUTHORIZED INVESTMENTS – Continued)

E. BONDS, NOTES, WARRANTS, or other evidences of indebtedness of any local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.

OFFICE RESTRICTIONS: Must have specific written approval of the County Treasurer for each investment. The following office restrictions can be exceeded only with the specific written approval of the County Treasurer:

1. Maximum term of one year to maturity.
2. Maximum of 5 percent of the combined pool may be invested in this category.

F. FEDERAL AGENCY OR UNITED STATES GOVERNMENT-SPONSORED ENTERPRISE (GSE) OBLIGATIONS, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

OFFICE RESTRICTIONS: More than 25 percent of the combined pool may be invested per agency or GSE only with the specific written approval of the County Treasurer.

G. BANKERS' ACCEPTANCES otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. The purchase of bankers' acceptances is restricted by California GC as follows: Purchase of bankers' acceptances may not exceed 180 days' maturity or 40 percent of the combined pool. No more than 30 percent of the combined pool may be invested in the bankers' acceptances of any one commercial bank.

OFFICE RESTRICTIONS: BANKERS' ACCEPTANCES – DOMESTIC
The following office restrictions can be exceeded or modified only with the specific written approval of the County Treasurer:

1. To be eligible for purchase, a domestic issuer of bankers' acceptances must have the highest short-term credit rating of a nationally recognized statistical rating organization (NRSRO).
2. Maximum of 30 percent of the combined pool may be invested in domestic bankers' acceptances.
3. Maximum of 10 percent of the combined pool may be invested in domestic bankers' acceptances of any one issuer.

OFFICE RESTRICTIONS: BANKERS' ACCEPTANCES – FOREIGN
The following office restrictions can be exceeded or modified only with the specific written approval of the County Treasurer:

(XI. AUTHORIZED INVESTMENTS – Continued)

1. To be eligible for purchase, a foreign issuer of bankers' acceptances must have the highest short-term credit rating of a NRSRO.
2. Maximum of 10 percent of the combined pool may be invested in foreign bankers' acceptances.
3. Maximum of 4 percent of the combined pool may be invested in foreign bankers' acceptances of any one issuer.
4. Maximum term of 90 days to maturity.

H. COMMERCIAL PAPER of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2):

1. The entity meets the following criteria:
   a. Is organized and operating in the United States as a general corporation.
   b. Has total assets in excess of five hundred million dollars ($500,000,000).
   c. Has debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO.

2. The entity meets the following criteria:
   a. Is organized within the United States as a special purpose corporation, trust, or limited liability company.
   b. Has programwide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond.
   c. Has commercial paper that is rated "A-1" or higher, or the equivalent, by a NRSRO.

Eligible commercial paper shall have a maximum maturity of 270 days or less. No more than 40 percent of the combined pool money may be invested in eligible commercial paper. No more than 10 percent of the total assets of the investments held in the combined pool may be invested in any one issuer's commercial paper.

OFFICE RESTRICTIONS:
The following office restrictions can be exceeded only with the specific written approval of the County Treasurer:

1. Maximum of 15 percent of the combined pool may be invested in this category.
2. Maximum of 5 percent of the total assets of the investments held in the combined pool may be invested in any one issuer's commercial paper.
3. Maximum term of 90 days to maturity.

I. CERTIFICATES OF DEPOSIT (CD)

1. COLLATERALIZED CERTIFICATES OF DEPOSIT issued by a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of

certificates of deposit (additional restrictions in GC §53601.8). In total, Certificates of Deposits (collateralized and negotiable) shall not exceed 30 percent of the agency's funds. Banks must maintain collateral in compliance with California law.

OFFICE RESTRICTIONS:
Must have specific written approval of the County Treasurer for each investment. The following office restrictions can be exceeded or modified only with the specific written approval of the County Treasurer:

a. The bank must meet the minimum requirements of a depository financial institution as per Section V.A.1 of this IP.
b. The County Treasurer shall maintain a security agreement with each bank where these deposits are held. Said security agreement shall be in writing, executed by the bank contemporaneously with the acquisition of the asset by the depository institution, approved by the board of directors or loan committee of the bank, which approval shall be reflected in the minutes of said board or committee (prescribed in North Arkansas v. Barrett, U.S. Court of Appeals, see glossary).
c. Maximum term of one year to maturity.
d. Fully collateralized with market value of eligible securities as defined in GC§53651 and GC§53652.
e. Maximum of 5 percent of the combined pool may be invested in collateralized and negotiable CD in total.
f. Maximum of 1 percent of the combined pool may be invested in any one issuer.

2. NEGOTIABLE CERTIFICATES OF DEPOSIT (NCD) issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union (additional restrictions in GC §53601 (i)) or by a state-licensed branch of a foreign bank. Purchases of NCD may not exceed in total 30 percent of the agency's surplus money which may be invested pursuant to this IP.

OFFICE RESTRICTIONS: Must have specific written approval of the County Treasurer for each investment. The following office restrictions can be exceeded only with the specific written approval of the County Treasurer:

a. Maximum term of 90 days to maturity.
b. Maximum of 20 percent of the combined pool may be invested in collateralized and negotiable CD in total.
c. Maximum of 5 percent of the combined pool may be invested in any one issuer.

(XI. AUTHORIZED INVESTMENTS – Continued)

J. REPURCHASE AGREEMENTS, REVERSE REPURCHASE AGREEMENTS, AND SECURITIES LENDING AGREEMENTS

1. REPURCHASE AGREEMENTS may be made on any investment authorized in GC §53601, when the term of the agreement does not exceed one year. The market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day. Maturity limitation of five years at the date of purchase does not apply to securities underlying a repurchase agreement.

   OFFICE RESTRICTIONS:
   The following office restrictions can be exceeded or modified only with the specific written approval of the County Treasurer:

   a. Agreements:
      (1) A tri-party repurchase agreement between the County Treasurer, the seller, and the custodian must be on file in the County Treasurer's office before conducting repurchase transactions covered by the agreement; or
      (2) A bi-party repurchase agreement between the County Treasurer and the seller must be on file in the County Treasurer's office before conducting repurchase transactions covered by the agreement.
   b. Must be on the County Treasurer's list of approved repurchase agreement issuers.
   c. Maximum term of 30 days to maturity.
   d. Maximum of 15 percent of the combined pool may be invested in this category.

2. REVERSE REPURCHASE AGREEMENTS are identified in GC §53601 (j).

   OFFICE RESTRICTIONS: Reverse repurchase agreements are not authorized by the County Treasurer.

3. SECURITIES LENDING AGREEMENTS are identified in GC §53601 (j).

   OFFICE RESTRICTIONS: Securities lending agreements are not authorized by the County Treasurer.

(XI. AUTHORIZED INVESTMENTS – Continued)

K. MEDIUM-TERM NOTES (MTN's), defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment shall be rated "A" or better by a NRSRO. Purchases of MTN's shall not include other instruments authorized and may not exceed 30 percent of the agency's money that may be invested pursuant to this IP.

OFFICE RESTRICTIONS:
Must have specific written approval of the County Treasurer for each investment. The following office restrictions can be exceeded or modified only with the specific written approval of the County Treasurer:
1. Maximum term of four years to maturity.
2. Must be issued at a fixed rate.
3. Maturities over one year must have a minimum rating of "Aa1" by Moody's, "AA" by S&P, or "AA" by Fitch.
4. Maximum of 15 percent of the combined pool may be invested in this category.
5. Maximum of 4 percent of the combined pool may be invested in any one issuer.

L. MONEY MARKET MUTUAL FUNDS (Shares of Beneficial Interest), as defined and restricted by GC §53601 (l) and GC §53601(p).

OFFICE RESTRICTIONS:
No more than 10 percent of the combined pool may be invested in any one mutual fund. The County Treasury shall invest in money market mutual funds only with the specific written approval of the County Treasurer.

M. PLEDGED FUNDS held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements may be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of a local agency providing for the issuance.

N. NOTES, BONDS, or other obligations that are at all times secured by a valid first priority security interest in securities of the types listed by GC §53651 as eligible securities for the purpose of securing local agency deposits having a market value at least equal to that required by GC §53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.

OFFICE RESTRICTIONS:
Must have specific written approval of the County Treasurer for each investment. The following office restrictions can be exceeded only with the specific written approval of the County Treasurer:

1. Maximum term of one year to maturity.
2. Maximum of 5 percent of the combined pool may be invested in this category.

O. MORTGAGE PASSTHROUGH SECURITY, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond of a maximum of five years' maturity. Securities eligible for investment shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by a NRSRO and rated in a rating category of "AA" or its equivalent or better by a NRSRO. Purchase of securities authorized may not exceed 20 percent of the agency's surplus money that may be invested.

OFFICE RESTRICTIONS:
Must have specific written approval of the County Treasurer for each investment. The following office restrictions can be exceeded only with the specific written approval of the County Treasurer:

1. Maximum term of one year to maturity.
2. Maximum of 5 percent of the combined pool may be invested in this category.
3. The County Treasurer shall invest or direct the investment of these funds when directed to do so by the County Administrative Officer or the County Board of Supervisors.

P. LOCAL AGENCY INVESTMENT FUND (LAIF)
Investments are authorized in LAIF, subject to the limitations issued by LAIF.

OFFICE RESTRICTIONS: Non-bond funds and non-specific investments deposited with LAIF are limited to 20 percent of the combined pool.

XII. POLICY ISSUES

A. EXEMPTION
Any investment held at the date of this revision not meeting this revised IP shall be exempted from the requirements and may be held to maturity. At

maturity or liquidation, any replacement investments shall be in compliance with the revised policy.

B. AMENDMENTS/REVISIONS

This IP revision shall remain in force until amended in writing by the County Treasurer.

1. The County Treasurer shall annually present the IP to the CTOC and the County Board of Supervisors for their review and approval at a public meeting.
2. Interim revisions or amendments to the IP shall be presented to the CTOC and the County Board of Supervisors for their review and approval at a public meeting. This does not apply to revisions of office restrictions that are in compliance with federal, state, and local laws and regulations and approved in writing by the County Treasurer.
3. The County Treasurer shall render the IP to the California Debt and Investment Advisory Commission (CDIAC) within 60 days following the end of the second quarter of each calendar year and 60 days after the subsequent amendments thereto.

C. CALCULATING AND APPORTIONING THE COSTS

The manner of calculating and apportioning the costs of investing, depositing, banking, auditing, reporting, or otherwise, handling or managing funds is as follows:

1. Total earnings for all funds will be accounted for and accumulated. All costs incurred as described in GC §27013, §27133, and §27135 will be accounted for and paid out of earnings.
2. Administrative costs will be distributed at 50 percent against earnings of non-specific investments, with the remaining 50 percent against earnings of all investments. Banking costs will be distributed at 80 percent against earnings of non-specific investments, with the remaining 20 percent against earnings of all investments.
3. Other methods of allocating cost will be utilized on an individual basis when deemed by the County Treasurer to be equitable to the combined pool and agreed upon by the pool participant.

D. CRITERIA FOR CONSIDERING REQUESTS TO WITHDRAW FOR INVESTMENT PURPOSES

The County Treasurer shall provide a form to agencies requesting withdrawal of funds for investment purposes. The County Treasurer expresses no opinion on the suitability of any investment contemplated in connection with withdrawals for investment purposes and requires a resolution approving the withdrawal from the agency's governing board. Once the funds are withdrawn from the Treasury Pool, the agency assumes responsibility of its investments. The Treasurer does not direct or set rules on the investments of these funds. Assessment of the effect of a proposed withdrawal on the stability and predictability of the investments in the combined pool shall be based on the following criteria:

1. Size of withdrawal
2. Size of remaining balances of:
   a. Pool
   b. Agency
3. Current market condition
4. Effect on predicted cash flows
5. A determination if there will be sufficient balances remaining to cover costs
6. Adequate information has been supplied to the County Treasurer in order to make a proper finding that other pool participants will not be adversely affected.
7. When the County Treasurer finds that a withdrawal will adversely affect the other pool participants, the County Treasurer may approve the withdrawal if the County Treasurer and the requesting agency arrive at an agreement that will negate this impact to the pool participants.

E. TERMS AND CONDITIONS FOR NON-STATUTORY COMBINED POOL PARTICIPANTS

All entities qualifying under GC §27133(g), may deposit funds for investment purposes providing all of the following has been accomplished:

1. The agency's administrative body has requested the privilege, has agreed to terms and conditions of an investment agreement as prescribed by the County Treasurer, and has by resolution identified the authorized officer acting on behalf of the agency.
2. The County Board of Supervisors approves the investment agreement.
3. The County Auditor-Controller shall prescribe the appropriate accounting procedures.

XIII. DISASTER RECOVERY PLAN

A. GOAL

The goal of the Disaster Recovery Plan is to protect all funds deposited with the County Treasury and continue to perform banking and investment functions to meet the needs of all Treasury pool participants if an emergency disrupts normal operations.

B. EMERGENCY TREASURY PACKETS

Each member of the Investment Team is provided with the Disaster Recovery Plan that includes the following information:

1. CONTACTS
   a. Key personnel telephone numbers.
   b. Authorized banks and broker/dealers contact list including telephone, fax and addresses.
2. BANKING/INVESTMENT INFORMATION
   a. Current IP
   b. County Treasurer's written policies and procedures
   c. Forms and Information

C. PROCESSES

1. Normal processes may be modified to accommodate the emergency situation. However, the investment restrictions in this IP and the County Treasurer's written policies and procedures will be strictly followed.
2. Emergency conditions allowing, at least two authorized members of the Investment Team will meet at an agreed upon location.

XIV. GLOSSARY OF TERMS

Some terms or words used in this document have specific meaning relative to this IP. The following are described as they pertain to this IP. Terms not defined in the Glossary are to be interpreted with their standard accepted definition.

ACCRUED INTEREST
The amount of interest that is earned but unpaid since the last interest payment date.

AGENCIES OR FEDERAL AGENCIES
See Government Sponsored Enterprises

BANKERS' ACCEPTANCES
A time draft drawn on and accepted by a bank, the customary means of effecting payment for merchandise sold in import-export transactions and a source of financing used extensively in international trade. With the credit strength of a bank behind it, the bankers' acceptance usually qualifies as a money market instrument.

BOOK ENTRY
The system maintained by the Federal Reserve, by which most money market securities are delivered, usually electronically, to an investor's custodian bank. The Federal Reserve maintains a computerized record of the ownership of these securities and records any changes in ownership corresponding to payments made over the Federal Reserve wire system.

BROKER/DEALER
Any person engaged in the business of effecting transactions in securities in this state for the account of others or for his own account. "Broker/dealer" also includes a person engaged in the regular business of issuing or guaranteeing options with regard to securities not of his own issue.

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION (CDIAC)
The CDIAC provides information, education, and technical assistance on debt issuance and public fund investments to local public agencies and other public finance professionals. The Commission was created in 1981 with the passage of law, which established it as the State's clearinghouse for public debt issuance information and required it to assist state and local agencies with the monitoring, issuance, and management of public debt.

CALLABLE SECURITIES
A callable security is a bond, preferred stock or debenture which may be redeemed or "called" by the issuing company prior to its maturity. The company may have the right to redeem all or part of the debt. Usually done by the company when interest rates drop. The company wants to replace expensive debt with lower interest rate debt.

CERTIFICATE OF DEPOSIT (CD)
A deposit of funds at a bank for a specified period of time that earns interest at a specified rate. Commonly known as "CD." Institutional CDs are usually issued in denomination of

$100,000 or more. Maturities range from a few weeks to several years. Interest rates are set by competitive forces in the market place. (See **NEGOTIABLE CERTIFICATES OF DEPOSIT**)

COLLATERAL
Assets pledged as security for applicable investments. Pledged securities must meet the requirements of California law.

COMBINED POOL
The County maintains a combined pool with cash and investments which provide cash flow for the funding needs of the participants. Participants include County departments, agencies, schools, and special districts. The combined pool is managed by the San Luis Obispo County Treasurer. The combined pool portfolio is carried at amortized cost and includes accrued interest.

COMMERCIAL PAPER
Short-term unsecured obligations with maturities ranging from 2 to 270 days issued by banks, corporations, and other borrowers to investors with temporarily idle cash. Such instruments are usually discounted, although some are interest-bearing. It is issued only by top rated concerns and is nearly always backed by bank lines of credit. Ratings are assigned by a nationally recognized rating service organization (NRSRO).

CONFIRMATION
Formal memorandum from a broker/dealer to the County Treasury giving the details of a securities transaction, i.e., purchase or sale. The confirmation is compared to the investment tracking system by authorized staff not directly supervised by investment personnel. Discrepancies shall be referred immediately to the Assistant Treasurer (provided that the Assistant Treasurer did not execute the transaction) or the County Treasurer.
(See **DISCREPANCY**)

COUNTY TREASURY OVERSIGHT COMMITTEE (CTOC)
The CTOC was established in 1996. The committee consists of five members appointed from seven categories, County Treasurer, County Auditor-Controller, representative appointed by the County Board of Supervisors, County Superintendent of Schools or designee, representative of San Luis Obispo County School Boards, representative of San Luis Obispo County Special Districts, or public member. The committee members designate their respective alternate who act in their behalf in case they are not able to perform their duties at certain times during the year. The duties include the following: a) review and monitor the annual investment policy, b) contract for an annual investment policy compliance audit, c) present the annual investment compliance audit to the Board of Supervisors, d) elect a chairperson and vice chairperson, e) ensure compliance with all provisions of the Ralph M. Brown Act, f) meet at least once a year with special meetings called as needed, g) review the County Treasurer's Quarterly Report.

CUSTODIAN/CUSTODY
The financial institution where the securities purchased by the County Treasury are held.

(XIV. GLOSSARY OF TERMS – Continued)

DELIVERY VS. PAYMENT (DVP)
Delivery of securities purchased by the County Treasury is made to the County Treasurer's custodian in exchange for payment.

DERIVATIVE
An investment whose characteristics and value are based on the performance of an underlying financial asset, index or other investment. Derivatives include inverse floaters, range notes, or mortgage derived, interest-only strips and any security that could result in zero interest accrual if held to maturity.

DISCOUNT
The difference between the bond's current market price and its face or redemption value. (See **PREMIUM**)

DISCREPANCY
A difference or variance from what is expected or stated. Any of the following discrepancies found in the County Treasury investment confirmation process are referred immediately to the Assistant Treasurer (provided that the Assistant Treasurer did not execute the transaction) or the County Treasurer. (See **CONFIRMATION**)

A. Description of a security
B. Broker information
C. Purchase or maturity date
D. Full value of a security
E. Purchase price
F. Interest amount
G. Confirmation not received within 10 business days

DIVERSIFICATION
The spreading of risk by investing in a variety of securities offering independent returns.

FEDERAL AGRICULTURAL MORTGAGE CORPORATION (Farmer Mac)
A stockholder-owned, publicly-traded company that was chartered by the United States federal government in 1988 to serve as a secondary market in agricultural loans such as mortgages for agricultural real estate and rural housing

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC)
A federal agency that insures bank deposits, temporarily increased by Congress from $100,000.00 to $250,000.00 per depositor through December 31, 2009.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA or Fannie Mae)
A stockholder-owned, publicly traded company established as a federal agency in 1938 and chartered by Congress in 1968 as a government-sponsored enterprise to promote a secondary market for conventional, Federal Housing Administration, and Veterans Administration single and multi-family mortgages. On September 6, 2008, the Director of Federal Housing Finance Agency (FHFA) appointed FHFA as the conservator of Fannie

Mae. In addition, the U.S. Department of Treasury agreed to provide up to $100 billion of capital as needed to ensure that the company continues to provide liquidity to the housing and mortgage markets. Both discount notes and bonds are issued.

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC or Freddie Mac)
A stockholder-owned, publicly-traded company established by Congress in 1970 as a government-sponsored enterprise to provide a continuous flow of funds to mortgage lenders, through developing and maintaining an active nationwide secondary market in conventional residential mortgages to provide opportunities for homeownership and affordable rental housing across the nation. On September 6, 2008, the Director of FHFA appointed FHFA as the conservator of Freddie Mac. In addition, the U.S. Department of Treasury agreed to provide up to $100 billion of capital as needed to ensure that the company continues to provide liquidity to the housing and mortgage markets. Both discount notes and bonds are issued.

FEDERAL HOME LOAN BANK (FHLB)
A system of 12 regional banks, created in 1932, which are owned by private member institutions and regulated by the Federal Housing Finance Board (FHFB). Functioning as a credit reserve system, they facilitate extension of credit through owner-members in order to provide access to housing and to improve the quality of communities. On July 30, 2008, the Housing and Economic Recovery Act of 2008 became law which replaced the FHFB with the FHFA as the FHLB's regulator and the Secretary of the Treasury was authorized to purchase FHLB's debt securities in any amount through December 31, 2009, subject to the pledging of secured loans as collateral. After that time, the limit would return to the original $4 billion. Both discount notes and bonds are issued.

FEDERAL FARM CREDIT SYSTEM (Farm Cr)
The oldest government-sponsored enterprise created by Congress in 1916, this nationwide system of banks and associations provides mortgage loans, credit and related services to farmers, rural homeowners, and agricultural and rural cooperatives. The banks and associations are cooperatively owned, directly or indirectly, by their respective borrowers. Currently, there are four Farm Credit Banks and one Agricultural Credit Bank which provide funds and support services to approximately 94 locally owned Farm Credit Associations and numerous cooperatives nationwide. Farm Credit Banks Consolidated Systemwide Debt Securities are issued through the Farm Credit Banks Funding Corporation. Both discount notes and bonds are issued.

FEDERAL RESERVE SYSTEM
System established by the Federal Reserve Act of 1913 to regulate the U.S. monetary and banking system. It is the central bank of the United States which is composed of a central governmental agency in Washington, D.C. (the Board of Governors) and 12 regional Federal Reserve Banks in major cities throughout the United States.

FITCH, INC. (FITCH)
One of the NRSROs utilized by the County Treasurer in determining eligibility for securities purchases. (See **NATIONALLY RECOGNIZED RATING SERVICE ORGANIZATION**)

(XIV. GLOSSARY OF TERMS – Continued)

GOVERNMENT-SPONSORED ENTERPRISES (GSE)
A general term for several privately owned, publicly chartered agencies created to reduce borrowing costs for certain sectors of the economy such as agriculture and home finance. The GSE that issue debt instruments as of the time of this printing include: Federal Home Loan Banks, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Farm Credit System, and Federal Agricultural Mortgage Corporation.

INFORMAL COMPETITIVE BID
A verbal or written bid submitted to the County Treasury by a broker/dealer for a specific issue at a specific price or yield.

INTEREST
The amount earned while owning a debt security, generally calculated as a percentage of the principal.

INVESTMENT TRACKING SYSTEM
Database system used for the management of investments in the combined pool. Reports include the schedule of investments, specific percentage reports by type of instrument and broker, weighted average yield and life of the portfolio, purchase and maturities, quarterly interest accrual, and tracking of the carrying value of each instrument. The Investment Tracking System reporting is audited quarterly by the County Auditor-Controller.

ISSUER
Legal entity that has the power to issue and distribute a security. Issuers include corporations, municipalities, foreign and domestic governments and their agencies, and investment trusts.

LIQUIDITY
The ability to meet cash requirements by structuring the portfolio so that maturities meet anticipated cash flow needs as well as unanticipated cash flow needs by including marketable securities in the portfolio.

LOCAL AGENCY
County, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

MARKET VALUE
The price at which a security is trading and could presumably be purchased or sold.

MARKETABLE SECURITIES
Marketable securities are securities that are easily sold. They are assets that can be readily converted into cash, i.e., Treasuries, Agencies, Bankers' Acceptances, and Commercial Paper.

(XIV. GLOSSARY OF TERMS – Continued)

MATURITY/MATURITY DATE
The date on which the principal amount of a security becomes due and payable.

MOODY'S INVESTORS SERVICE, INC. (MOODY'S)
One of the NRSROs utilized by the County Treasurer in determining eligibility for securities purchases. (See **NATIONALLY RECOGNIZED RATING SERVICE ORGANIZATION**)

MONEY MARKET MUTUAL FUNDS
An investment fund that holds the objective to earn interest for shareholders while maintaining a net asset value of $1 per share. Mutual funds, brokerage firms and banks offer these funds. Portfolios are comprised of short-term (less than one year) securities representing high-quality, liquid debt and monetary instruments.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO)
Rating agencies whose credit ratings are used under the Security and Exchange Commission’s regulations. There are currently seven officially designated NRSROs: A.M. Best Company, Inc., DBRS Ltd., Fitch Inc., Japan Credit Rating Agency, Ltd., Moody’s, Rating and Investment Information, Inc., and Standard & Poor’s Ratings Services (S&P).

NEGOTIABLE CERTIFICATE OF DEPOSIT (NCD)
A large dollar amount short-term certificate of deposit with a fixed amount of interest. NCDs are issued by large banks and bought mainly by corporations and institutional investors. They are payable either to the bearer or to the order of the depositor, and, being negotiable, they enjoy an active secondary market, but cannot be cashed-in before maturity. Although NCDs can be issued in any denomination from $100,000 up, the typical amount is $1 million and frequently in round lots of $5 million. They trade at a discount to the face value which is repaid on maturity. Maturities vary from 14 days to 12 months. (See **CERTIFICATE OF DEPOSIT**)

NORTH ARKANSAS V. BARRETT CASE
In April 1992, the U.S. Court of Appeals for the Eighth Circuit handed down its decision in North Arkansas Medical Center v. Barrett. The court’s decision focused on the provisions of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), particularly Section 1823(e) of Title 12 of the U.S. Code, specifying the requirements of a valid security agreement 1) is in writing, 2) executed by the depository institution and the entity making the claim contemporaneously with the acquisition of the asset, 3) was approved by the board of directors or loan committee of the institution and reflected in the minutes of that group, and 4) has been an official record of the institution continuously from the time of its execution. These requirements must be satisfied if an asset required by the receiver of a failed institution is to be subject to the claims of a depositor based on a security interest. The court held that the statutory requirements were not met because the pertinent documents were not executed contemporaneously with the acquisition by the financial institution of the assets and there was no evidence that any security agreement regarding these assets had been approved by the financial institution’s directors or loan committee.

(XIV. GLOSSARY OF TERMS – Continued)

PORTFOLIO
A group of securities held by an investor.

PREMIUM
Amount by which a bond sells above its face value. (See **DISCOUNT**)

PRIMARY DEALER
A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker/dealers and banks.

PRINCIPAL
The face value or par value of an investment.

RECEIVABLE-BACKED SECURITIES
Securities collateralized with consumer receivables, which are owned by the issuer, but placed with a trustee for the benefit of the investor.

RECEIVABLE PASSTHROUGH CERTIFICATE
A debt obligation that is backed by a portfolio of receivables, normally issued by a bank or financial institution.

REGISTERED STATE WARRANT
A short-term obligation of a state governmental body issued in anticipation of revenue.

REPURCHASE AGREEMENT/TRI-PARTY, BI-PARTY
An agreement between a seller and a buyer, usually of government securities, whereby the seller agrees to repurchase the securities at an agreed upon price at a stated time. A TRI-PARTY repurchase agreement is where the purchased securities are in safekeeping with a custodian other than the seller or the buyer. A BI-PARTY repurchase agreement is where the purchased securities are in safekeeping with the seller.

RETURN ON AVERAGE ASSETS (ROAA)
ROAA is a measure of profits relative to size that is commonly used in analyzing banks and financial companies. It is calculated by dividing Net income with Average Assets.

RISK-ADJUSTED ASSETS
The assets shown in the balance sheet of a bank that have had a risk weighting (percentage weight) applied to them.

RULE G-37 OF THE MUNICIPAL SECURITIES RULEMAKING BOARD
Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities.

(XIV. GLOSSARY OF TERMS – Continued)

SAFEKEEPING
Storage and protection of securities provided by an institution where control is designated by the County Treasury. (See **CUSTODIAN/CUSTODY**)

SECURITIES AND EXCHANGE COMMISSION (SEC)
Federal agency created by Congress in 1934 to protect investors in securities transactions by administering securities acts. The statutes administered by the SEC are designed to promote full public disclosure and protect the investing public against malpractice in the securities market.

STANDARD AND POOR'S RATINGS SERVICES (S&P)
One of the NRSROs utilized by the County Treasurer in determining eligibility for securities purchases. (See **NATIONALLY RECOGNIZED RATING SERVICE ORGANIZATION)**

TIER 1 CAPITAL
This consists of common stock and qualifying preferred stock.

TIER 2 CAPITAL
This consists of supplementary capital categorized as undisclosed reserves, revaluation reserves, general provisions, hybrid instruments, subordinated debt, and loan loss reserves.

TIER 1 RISK-BASED CAPITAL RATIO
A core measure of a bank's financial strength. It is also seen as a metric of a bank's ability to sustain future losses. It is calculated by dividing the bank's equity with its total risk-adjusted assets.

TIER 1 LEVERAGE RATIO
It is calculated by dividing Tier 1 Capital with its average total consolidated assets.

TOTAL ASSET CLASSIFICATION RATIO
This measures the volume of classified assets of the bank relative to the "cushion" of capital that may be used to absorb inherent losses in classified assets. Values for this ratio above 40 to 50 percent often represent less than satisfactory asset quality. It is calculated by dividing Total Adversely Classified Items (substandard assets, doubtful assets, loss assets) with the total of Tier 1 Capital and Allowance for Loans and Leases Losses.

TOTAL RISK-BASED CAPITAL RATIO
A measure of a bank's financial strength, taking into account capital reserves for loans, investments, and certain other items off the balance sheet. It is calculated by dividing the total of Tier 1 Capital and Tier 2 Capital with risk-adjusted assets.

TREASURER'S DAILY REPORT (TDR)
A report prepared daily by the County Treasury cashier summarizing the day's receipts and disbursements, investment activity, and cash. Month-to-date totals are also reported for receipts and disbursements. The TDR is submitted daily to the County Auditor-Controller

TREASURY BILLS
Short-term debt obligations of the United States Government, sold at a discount from their face value. They are issued through a competitive bidding process at auctions. The U.S. Treasury issues range from a few days to 52 weeks.

TREASURY BONDS
Long-term debt obligations of the United States Government. They are issued through a competitive bidding process at auctions. Treasury bonds pay a fixed rate of interest every six months until maturity and are issued in a term of 30 years.

TREASURY NOTES
Intermediate-term debt obligations of the United States Government. They are issued through a competitive bidding process at auctions. Treasury Notes earn a fixed rate of interest every six months until maturity and are issued in terms of 2, 5, and 10 years.

YIELD
Return on an investment. The County Treasury uses the following formula for calculating yield on securities held in the combined pool:
Earnings ÷ amount invested ÷ life of investment in days x 365 days

Any comments or suggestions regarding this Investment Policy may be directed to:

- County Treasurer's Office
  Attention: Designated Investment Officer
  P.O. Box 1149
  San Luis Obispo, CA 93406

- Telephone Number:
  (805) 781- 5842

- Fax Number:
  (805) 781-1079

- E-mail Address:
  ttc@co.slo.ca.us

- Website:
  www.slocounty.ca.gov/tax

COUNTY OF SAN LUIS OBISPO

CALIFORNIA

SAN LUIS OBISPO COUNTY

COURTHOUSE

TREASURER - TAX COLLECTOR